*TurnKey Property Management Systems is a property consulting, management and investment company. This newsletter features TurnKey's real estate investments and the Los Angeles area marketplace with some discussion of economic trends and related matters.*

# TurnKey Real Estate Alert! (1)

**Joseph M. Ebin - January 2008**

## *The President's Corner*

To Our Partners and Friends:

TurnKey and its predecessors are celebrating thirty years in the real estate redevelopment and investment fields. Over these three decades and many real estate cycles, we have not varied our primary focus, the development of large operating margins to create healthy revenue streams for distribution and as a cushion against changing economic conditions.

This past year was exceptionally strong for operating investment property of most types in Southern California. Rental and occupancy rates for multi-family, office and industrial are either very high or at near record levels for most areas and product types. However, equity positions have eroded to some degree as valuations regress toward a more normal range.

Specifically, from our current projects, we are pleased to report extraordinary results. In 2007, TurnKey- controlled properties produced average operating cash flow of 43% per annum.[2] These projects have generated an average cumulative return of 299%.[3] Individual project cumulative returns range from 144% to 697%. Furthermore, our real estate projects are owned with very low levels of mortgage debt (about 35-55% loan-to-value ratio), which, in conjunction with the operations, have returned all of our investment capital. This strategy has placed us in the enviable position of having strong partially tax-sheltered cash flows, no current reportable capital gains and no remaining capital outlays.

We anticipate that market fundamentals for multifamily, office and industrial real estate will remain strong in Southern California. Multifamily properties will continue to benefit from high priced single family homes, priced out of the reach of most families earning less than $125,000 per year. Industrial and office space are currently in short supply with soaring rental rates.

Dislocations in the debt and equity markets and the economic slowdown are contributing to the gradual rachetting down of valuations. The economic fall out from the writer's strike is developing locally and will exacerbate the recessionary effects on real estate of different types. This revaluation should present opportunistic purchasing opportunities.

We maintain our focus on generating exceptional returns on capital through our specialized real estate investment programs. These programs include continuously reevaluating our real estate and its financing to maximize the operating cash flow for our groups. As opportunities arise, we will acquire new real estate for repositioning through adaptive reuse, remodeling and revamped marketing. From time to time, we can structure alternative tax enhanced investment strategies for both risk-averse retirement planning and also tax–advantaged equity investing.[1]

1. This is not an offering. If such an offering were made, it would be only via appropriate offering materials and only to qualified prospective investors. Past results are no indicator of future performance.
2. Annualized returns before allocation among the different classes of investors/members.
3. Computed as the average ratio of cash distributions to investors/members from operations and debt refinancings on a per project basis over the original cash investment per project.

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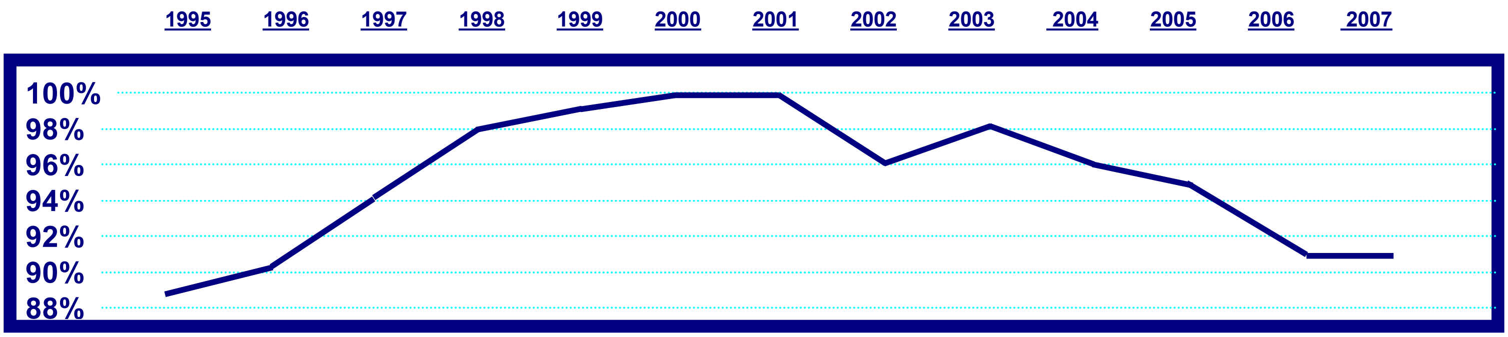
## *TurnKey's Yearly Occupancy Results*[5]




### On-going operations in calendar year 2007:[4, 5]

The real estate under TurnKey's ownership and management achieved very strong results. We achieved an average economic occupancy rate of 91% for the twelve month period (almost identical to the prior twelve months). From on-going operations with these properties, we generated operating cash flow after debt service ranging from 5.8% to 125% per annum, averaging 44% per annum**.**

**(1) At the Rancho Tech Center**, we created a mixed-use business park in which we converted 61% of the warehouse space to office, medical and fast food. The 2007 average effective occupancy was 90%. The operating cash flow yielded 18% per annum on the original investment and 184% per annum on the reduced investment after the property was refinanced. To date, the investor-members have received cumulative distributions of 144% on their original capital.

**(2) At the Studio Palms Apartments**, this multifamily property generated an average effective occupancy for the year of 99%. The 2007 operating cash flow was 27% per annum and the investor-members have received cumulative distributions of 198% on their original invested capital.

**(3) At the Studio Arnaz Apartments**, this partially hotel-style luxury property off Burton Way, generated an effective occupancy of 99% for the unfurnished units. The 2007 operating cash flow was 5.8% per annum and the investor-members have received cumulative distributions of 158% on the original invested capital.

**(4) At the Serrano Club Apartments**, this restored mid-town multi-family project generated average occupancy for the year of 99%. The 2007 operating cash flow yielded 125% per annum and the investor-members have received cumulative distributions of 697% on their original invested capital.

*We thank you and all of our colleagues in the real estate investment areas for your support in helping us to fulfill our strategic plans. Our business plans embrace the concept that innovative thinking and hard work will generate exceptional results for us and our partners.*

*Until next time,*

*Joseph M. Ebin, President*

4. Operating cash flow and equity returns are based upon cash flows from operations which are estimated and adjusted for capital expenses and non-recurring items and computed before giving effect to allocations among the different classes of members. Cumulative distributions are calculated on the ratio of investor-members cumulative distributions to date over original investments plus capital calls, if any.
5. Economic occupancy is derived at by the ratio of income collected over potential income and may differ from physical occupancy. For calendar year 2000 and forward, we are reporting economic occupancy; prior to that date physical occupancy. Rancho Tech Center is included as of 2004, however, rentable space held off the market or pre-leased for conversion to retail/commercial from industrial usage is treated as if occupied for this calculation.

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